NEONEX INTERNATIONAL 1970 ANNUAL REPORT

Picture on the right shows downtown Vancouver taken from the corporate offices of Neonex International.

COMPARATIVE HIGHLIGHTS

	1970	1969
For the year		
Sales	$159,643,000	159,301,000
Net earnings before extraordinary loss	1,840,000	4,560,000
Net (loss) earnings	(6,307,000)	4,560,000
Capital expenditures	5,375,000	6,502,000
Per common share		
Net earnings before extraordinary loss	27¢	68¢
Net (loss) earnings	(91¢)	68¢
Dividends paid	5¢	5¢
Year end position		
Total assets	78,671,000	93,019,000
Working capital	14,965,000	18,076,000
Long term debt	11,626,000	14,194,000
Convertible notes	16,085,000	16,085,000
Shareholders' equity	20,223,000	26,877,000
Employees	3,765	3,936
Shareholders	5,750	4,050

COVER

The circle theme is derived from one of three elements to be found in our Corporate Symbol. The first letter of the words in Neonex International can be seen in the symbol. The circle represents the many divisions of the Company as featured throughout this 1970 Annual Report.

Contents

Neonex International is a major industrial corporation engaged in the manufacture and sale of consumer goods and in services industries.

Annual Meeting

The 1971 Annual Meeting of Shareholders of Neonex International Ltd. will be held in the Social Suite West, Hotel Vancouver, in Vancouver at 9:30 a.m. on Tuesday, June 29, 1971.

To Our Shareholders:

Neonex recorded a decline in operating earnings during the year 1970. Your Directors are confident that, based on steps already initiated, the Company will realize a substantial recovery in 1971.

Net earnings from operations before recording an extraordinary loss were $1,840,000 or 27¢ per share during 1970 compared with $4,560,000 or 68¢ per share for 1969. Of the reduction in earnings per share, 23¢ is attributable to the loss sustained by the floorcovering subsidiary.

Despite a sales drop of over $8 million by the floorcovering subsidiary, the Company recorded a marginal increase in its consolidated sales of $160 million. This ability to generally maintain and increase our sales penetration during a year of economic downturn represents a substantial base on which to anticipate improved profits for 1971.

Positive Step

The reduction in operating earnings in 1970 was attributable primarily to the floorcovering subsidiary which experienced certain unique problems, as well as being confronted with a general softening of the Canadian carpet industry. This subsidiary sustained a pre-tax operating loss of over $3 million in 1970. Your Directors reacted decisively to curtail these unprofitable operations and provision has been made in respect of future costs of the curtailment program. We have also sold our 50% holdings in the Bigelow-Canada Limited carpet mill which was constructed in 1970. The steps taken will generate several million dollars which will be used to reduce bank borrowings.

Other Divisional Operations

The general economic conditions which prevailed during the past year reduced discretionary spending which adversely affected the earnings contribution of the Leisure Time and

Shelter divisions. The remaining divisions of the Company performed satisfactorily as outlined in the remainder of the report.

Maple Leaf Mills Limited

Late in 1969 the Company purchased a number of common shares of Maple Leaf Mills Limited and entered into agreements under which we would have acquired a 67% interest in Maple Leaf. On September 30, 1970, Norris Grain Company defaulted under the terms of its agreements. Subsequent efforts to resolve outstanding differences were not successful and Neonex terminated its efforts to gain control early in 1971. The Company retains a 14% investment in Maple Leaf but has charged to earnings in 1970 all costs relative to the Maple Leaf transactions in excess of the year-end market value of $14.50 per share on its present investment. The Company is continuing in its efforts to avoid litigation but, in the event that litigation is commenced, United States counsel have expressed the opinion that the Company should be awarded damages against Norris Grain Company including any damages that the Company may be obliged to pay.

Indications for 1971

While the economy remained relatively sluggish during the first few months of 1971, gains in production, incomes and employment evidence a recovery in the economy which is expected to gain momentum during the last half of the year. The capital expenditure program which totalled almost $12 million during the past two years places the Company in a strong position to participate in an economic upturn without significant new capital expenditures. The steps already taken to generate cash through the disposal of certain investments, combined with an anticipated increase in profits, ensures a substantial improvement in working capital and a strengthening in our overall financial position during 1971.

Objectives

The Company experienced rapid growth during the years 1968 and 1969 through a series of significant acquisitions. Sales and earnings were adversely affected during 1970 by a cutback in consumer spending and by the major difficulties experienced by the floorcovering subsidiary. The Company has now embarked on a program of consolidation and careful review of operating performance in order to maximize return on invested capital. Our optimism for improved performance in 1971 is in line with our overall objectives:

— to concentrate our efforts in the consumer goods and services markets which offer high growth potential.

— to increase market penetration and to improve the profitability of each division.

— to encourage internal growth through selective expansion of existing businesses.

— to take full advantage of profit opportunities which arise.

The enthusiasm and dedication of our employees and the loyalty and support of our shareholders and customers were most appreciated during the past year. Their continued endorsement of our objectives will ensure the Company's future growth.

On behalf of the Board of Directors,

James A. Pattison,
Chairman and President.

May 14, 1971

Financial Review

The Canadian economy experienced a general slowdown in 1970 which resulted in high unemployment, a reduction in housing starts, and a cutback in consumer spending. The combination of high level wage settlements, rising material costs and voluntary price restraints stressed by the Canadian Prices and Incomes Commission contributed to reduced margins.

The economic climate within which your Company was operating during the past year was a major contributor to the overall disappointing results from operations. Many of those in government and business now recognize that the need to revive the economy is equally as important today as was the need to control inflation in 1970. While the first part of 1971 has seen no dramatic turnaround, the downward trend appears to have been reversed and indicators point to an upswing during the latter part of the year.

During 1968 and 1969 the Company underwent significant expansion through acquisitions. No acquisitions were made during 1970 and the Company concentrated on strengthening existing operations. Plans are to continue on this course in 1971 and to utilize operating cash flow to reduce outstanding debt and to selectively expand existing businesses. There are no plans for future acquisitions.

The majority of the companies acquired were accounted for as poolings of interests. Therefore all financial data in this report include the operations of these companies prior to dates of acquisition. This presentation illustrates the internal growth of the various divisions.

OVERVIEW

The charts highlight key financial data and trends. The following comments provide additional information relating to the 1970 operations.

SALES AND EARNINGS

Sales for the year were $160 million, approximating those of 1969. Net earnings from operations were $1,840,000 compared with $4,560,000 last year.

The fall-off in operations resulted primarily from the problems encountered by the floorcovering subsidiary which are discussed below. Despite the economic downturn in 1970, the remaining divisional operations achieved a sales increase of 7% or almost $9 million; net earnings for the year from these operations were $3.3 million compared with $4.3 million in 1969.

EXTRAORDINARY LOSS

An extraordinary loss of $8.1 million was charged against earnings in 1970 to write down marketable securities to year-end quoted values, to write off goodwill of questionable worth and to provide for future losses in curtailing the operations of the floorcovering subsidiary.

MAPLE LEAF MILLS LIMITED

The Company indicated last year that it intended to acquire a controlling interest in Maple Leaf Mills Limited. As part of this program the Company purchased a number of common shares of Maple Leaf on the open market and entered into purchase and option agreements to acquire further shares. Because of a default by Norris Grain Company, Neonex was not able to acquire the additional shares and subsequently terminated its efforts to gain control.

There remains the possibility that the Company may become involved in litigation, in which case, based on the opinion of United States counsel, the Company should be awarded damages against Norris Grain Company, including any damages that the Company may be obliged to pay. Negotiations continue in an effort to find an amicable solution and thereby avoid litigation.

This investment was written down to the year-end quoted market value of $14.50 per share. This writedown together with costs of options, interest and related expenditures, less dividends received, amounted to $6 million which is included in the extraordinary loss.

FLOORCOVERING SUBSIDIARY

During 1970 this subsidiary encountered major problems in introducing to the Canadian market a new line of carpets and in endeavouring to maintain its share of that market in the face of high costs of imported product. The economic downturn in Canada, combined with an increase in the productive capacity of Canadian carpet mills, led to aggressive competition, shrinking margins, and diminishing sales.

The Company curtailed the scope of operations of this subsidiary, with a number of warehouse locations being closed and efforts concentrated in those areas which should be profitable. Subsequent to the year end the Company sold its 50% interest in Bigelow-Canada, Limited, as part of the curtailment program.

This decision resulted from the poor performance of this subsidiary during 1970 when sales fell over 30% from $27 million to $19 million. The pre-tax operating loss was $3 million

compared with a small profit in 1969. Goodwill was written off and a provision made for future costs related to this curtailment program in the aggregate amount of \$1.4 million which is included in the extraordinary loss.

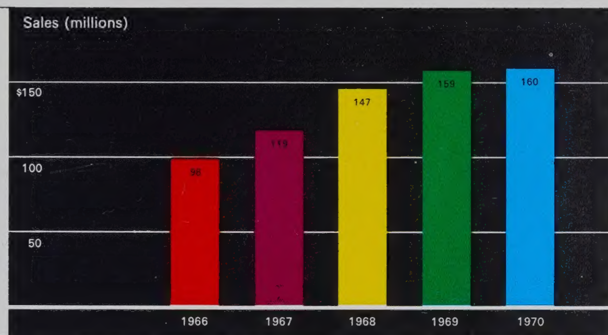
SELLING AND ADMINISTRATIVE EXPENSES

The continuing rise in the cost of labour and services combined with resistance to price increases resulted in selling and administrative expenses for the year being higher in relation to sales than for the previous year. Of the increase, \$2.1 million relates to the Advertising and Communications, Consumer Goods, and Food Services divisions, each of which achieved satisfactory operating results. A further \$700,000 of the increase relates to the floorcovering subsidiary and resulted largely from higher credit losses. The balance of the increase generally relates to the other divisions which were confronted with maintaining their organizations in a year when reduced discretionary spending contributed to disappointing sales and earnings levels.

Sales

Sales of those operations other than the floorcovering subsidiary were up \$8.7 million or 7% over 1969. Sales of the floorcovering subsidiary were \$19 million, down \$8.1 million.

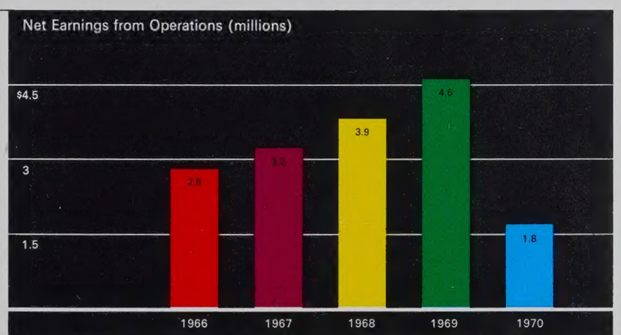
Operating revenues of \$23 million relating to certain divisions are included in sales.



Net Earnings from Operations

Net earnings from operations were \$1,840,000 in 1970 compared with \$4,560,000 in the preceding year. Of the \$2,720,000 drop in earnings, \$1,660,000 is the result of the loss of the floorcovering subsidiary.

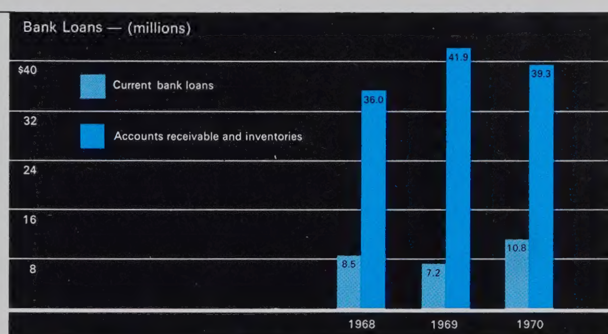
Net earnings from operations are before extraordinary items.



Bank Loans

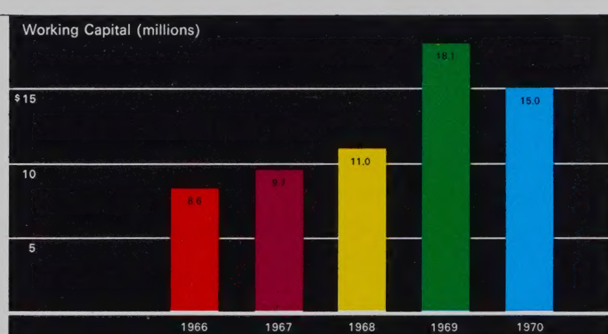
Current bank loans increased during the year from \$7.2 million to \$10.8 million. Such loans are usually related to the levels of accounts receivable and inventories.

The total of accounts receivable and inventories decreased during the year from \$42 million to \$39 million. Accounts receivable increased by \$300,000 during the year because of slower collections caused by the economic recession. Such increase was offset by a reduction of \$3 million in inventory levels through more effective inventory management.



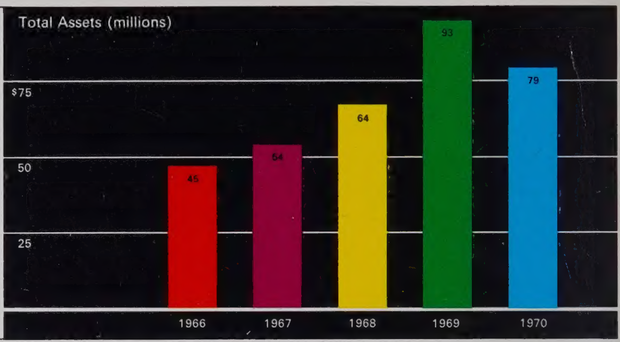
Working Capital

Working capital stands at \$15 million compared to \$18 million last year and \$11 million at the end of 1968. Current assets were \$43 million or 1.5 times the current liabilities compared to 1.6 last year.



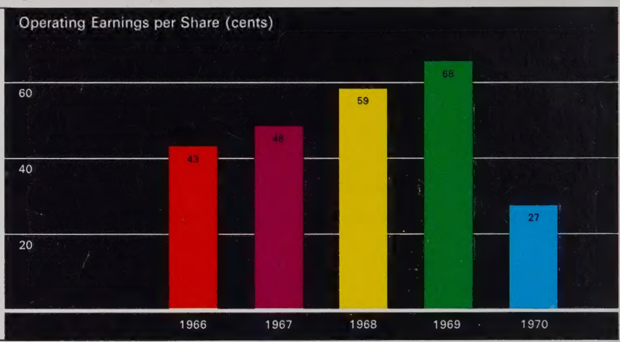
Total Assets

Total assets were $79 million at the end of 1970 compared with $93 million last year. The principal reasons for this decrease were the writedown of assets as part of the extraordinary loss and the application of $5 million of marketable securities and a $3 million collateral deposit in settlement of the Maple Leaf transactions and in reduction of long-term debt.



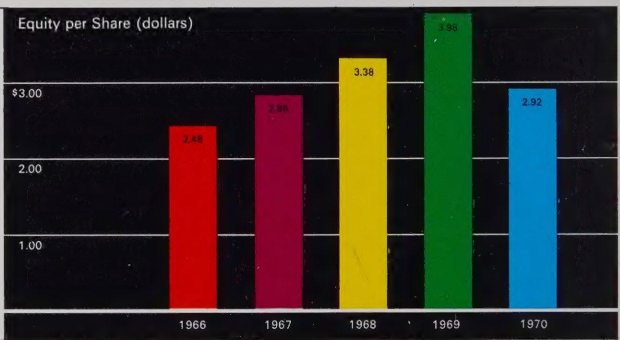
Operating Earnings per Share

Operating earnings per share were 27¢ per share in 1970 compared with 68¢ per share in 1969. Of this drop in earnings per share, 23¢ is accounted for by the loss of the floorcovering subsidiary.



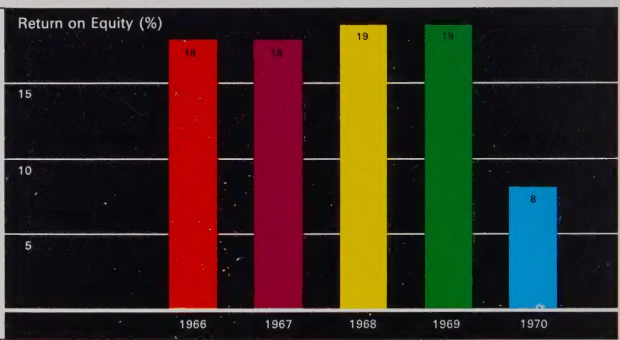
Equity per Share

Equity per share fell during the year from $3.98 to $2.92. The two factors giving rise to this reduction were the extraordinary loss charged to 1970 earnings, and the issue of 181,920 shares during the year as additional consideration for companies pooled in prior years.



Return on Equity

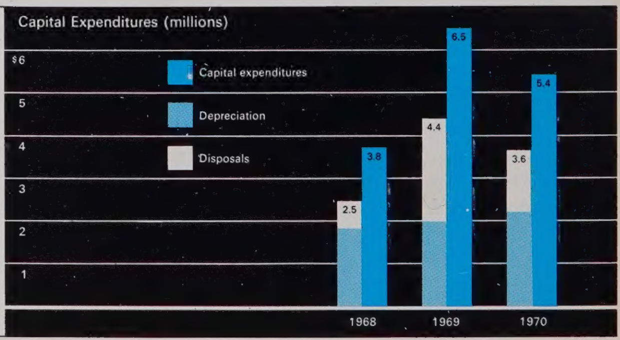
Net earnings from operations, expressed as a percentage of shareholders' equity, fell from 19% last year to 8% in 1970. This decline was caused primarily by the operating loss of the floorcovering subsidiary.



Capital Expenditures

Capital expenditures during the year amounted to $5.4 million. Asset retirements and depreciation charged against operations generated $3.6 million of the necessary funds. In 1969, capital expenditures were $6.5 million with retirements and depreciation providing $4.4 million of this amount.

The principal expenditures this year were store additions and renovations in the Food Services Division, an upgrading of the truck fleet in the Transportation Division, and the completion of plant expansions initiated in 1969.



Divisional Sales *($ millions)*

	1970		1969		1968		1967		1966	
	$	%	$	%	$	%	$	%	$	%
Advertising and Communications	14	9	12	8	10	8	9	8	9	9
Consumer Goods	31	19	27	17	23	16	18	15	15	15
Food Services	57	35	52	33	46	33	40	34	36	37
Home Improvements	22	14	31	19	31	22	26	22	17	18
Leisure Time	8	5	8	5	6	4	4	3	2	2
Shelter	11	7	13	8	10	7	8	7	5	5
Transportation Services	17	11	16	10	15	10	14	11	14	14
Total	160	100	159	100	141	100	119	100	98	100

This table summarizes the five year sales trend of each division, and the divisional contributions to consolidated sales. Operating revenues have been classified with sales for each division where it is applicable.

Divisional Earnings Contribution *($ thousands)*

	1970		1969		1968		1967		1966	
	$	%	$	%	$	%	$	%	$	%
Advertising and Communications	803	33	798	16	608	15	591	18	507	18
Consumer Goods	699	29	749	15	697	17	683	21	503	18
Food Services	1,365	57	950	19	827	20	621	19	659	23
Home Improvements	(1,293)	(54)	440	9	740	18	549	16	464	16
Leisure Time	134	6	485	10	340	8	149	4	49	2
Shelter	(38)	(1)	609	13	244	6	221	7	57	2
Transportation Services	729	30	887	18	637	16	489	15	593	21
Total	2,399	100	4,918	100	4,093	100	3,303	100	2,832	100

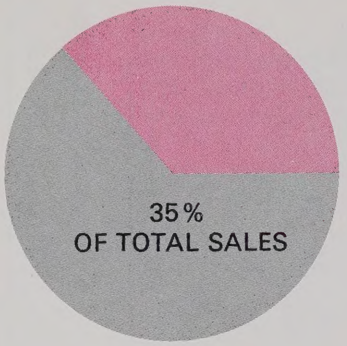
This table summarizes the five year trend in earnings contribution of each division, and the divisional contribution to consolidated earnings. These earnings figures represent the earnings contribution before allocation of corporate costs and before extraordinary items and minority interest.

DIVISIONAL OPERATIONS

The performance of each operating division, illustrated by charts showing the trends in both sales and earnings, is reviewed in the following section of the report. For each division where it is applicable, operating revenues have been classified with sales. Divisional earnings represent the earnings contribution before allocation of corporate costs and before extraordinary items and minority interest.

The financial statements and the auditors' report commence on page 22. The historical summary of key financial and statistical data appears on page 32.

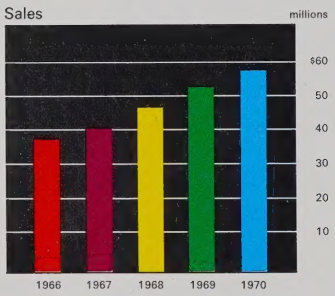
Griffith M. Marshall,
Vice-President, Finance and Administration.

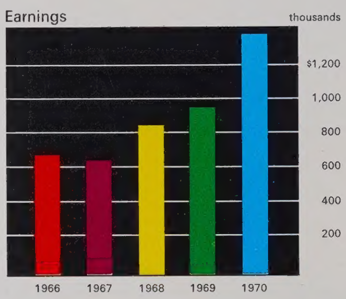


More favourably situated store locations were added in the Province of British Columbia in 1970.

Frequent management sales training programs ensure the highest calibre of food merchandising.

Food Services





Both sales and earnings in 1970 were the highest ever reported by your Company's 56 year old Food Services Division. We believe this performance reflects the efforts of a highly trained and experienced management group together with a well coordinated capital expenditure program.

Sales for 1970 exceeded $57 million, up 10% over the sales reported for 1969, and earnings reached $1,365,000.

The Division operates 52 food markets throughout the Province of British Columbia, made up of 49 Overwaitea stores and three Prairie Markets. A number of new markets are on the drawing board for 1971 as well as further renovations to be carried out in many existing stores.

The entry by Prairie Market into the fast growing metropolitan Vancouver area has produced satisfactory results and justified this key marketing decision.

The 1970 capital program provided for the replacement of outdated Overwaitea stores in Chemainus and Summerland and the opening of a new outlet in White Rock and a new Prairie Market in Richmond. Major renovations were carried out at several other locations to allow the company to provide up-to-date facilities in order to better serve our customers.

The main warehouse-head office building in Burnaby was enlarged during the year by one-third to over 100,000 square feet. This move has provided storage capacity for a larger variety of grocery products, improved loading and shipping facilities and a more efficient and faster distribution system.

A three month construction strike in British Columbia delayed the completion of the balance of the 1970 program with stores at Prince Rupert and Terrace being opened early in 1971.

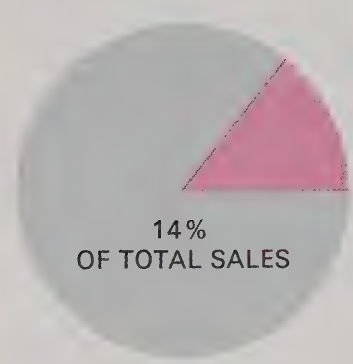
The Food Services Division is presently replacing its data processing equipment with a modern computer which will upgrade its inventory and distribution management and will improve its accounting and information systems. This advancement will ensure faster inventory distribution to all company locations across the province and provide better cost control information.

The company continues to encourage promotion from within the organization. Seminars are held regularly among the entire management group to strengthen their merchandising capability and to provide management training in a business which is highly competitive and traditionally associated with narrow margins.

British Columbia continues to be a high growth area. While labour contracts signed in 1970 and general upward pressure on costs are expected to reduce profit margins in 1971, we are confident that we will be able to maintain our position in this industry.


LOW LOW PRICES
STEELE-BRIGGS

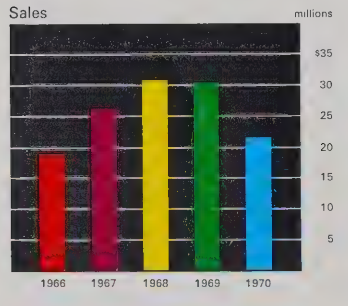

Overwaitea MANAGERS' CONVENTION

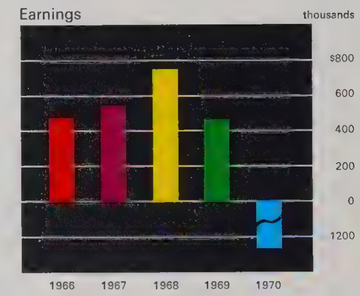


Neonex continued to add more paint store locations across the country in the year under review.

Bigelow carpets were manufactured in Canada for the first time in 1970.

Home Improvements





The past year has been a very disappointing one for the floor-covering subsidiary, Imbrex Limited, which constitutes the major segment of the Home Improvements Division. Last year's annual report described the formation of a joint venture with Bigelow-Sanford Inc. of the United States in the construction of a new Canadian carpet mill, with the output to be distributed by Imbrex.

While cautioning that the market would have to absorb the impact of this new major manufacturing facility, we were optimistic about the future. Excess production capacity and a general slowdown in the economy led to aggressive competition and a drop in sales volume of some 30%. The high cost of imported product during much of the year reduced margins significantly. The result was a pre-tax operating loss for the year of $3,058,000 compared with a profit of $165,000 in 1969.

The Company curtailed the scope of operations of this subsidiary, with a number of warehouse locations being closed and efforts concentrated in those areas which should be profitable, and with some customers being serviced direct from the mill. This move is being taken to avoid a further drain on earnings in 1971. In early May, 1971, the Company announced that as part of its curtailment program, it had sold its 50% interest in the carpet mill to its joint venture partner Bigelow-Sanford Inc.

Imbrex recorded a one-time extraordinary loss of $1.4 million which was charged against net earnings in 1970. This amount included the write-off of goodwill together with a provision for future costs related to the curtailment program.

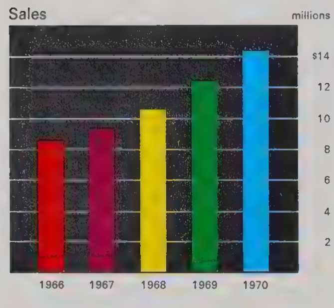
The second segment of this Division is Northern Paint Company which had a rather disappointing record in 1970. This was not unanticipated in light of the economic climate which prevailed, particularly in the prairie provinces where Northern's sales are highly concentrated.

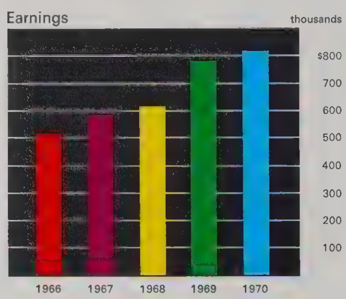
Industrial finishes represent a growing part of total sales and the company continues its program of developing new specialty products. Northern has also achieved a broader coverage of Western Canada under its Norco brand label for which there is a full line of quality paints in both oil and latex bases.

An example of the use of four-colour reproduction directly on to plastic, a new Neonex development for the industry.

The Neonex face-lift program continued to expand across Canada in 1970. Here we see the result of one installation in Calgary, Alberta.

Advertising and Communications





The Advertising and Communications Division achieved a record level of sales in 1970, showing a 19% increase over 1969. Earnings showed only a marginal increase over the excellent results achieved last year, largely because of having absorbed higher labour costs while generally holding the line on prices.

Plans progressed during the year to expand other related activities in order to offset business lost through increasing restrictive sign legislation and the loss of sign and billboard locations which has accompanied changes in land use in most major centres.

The Company is achieving considerable success in combining silk screening techniques with the successful face lift program reported last year. An innovative use of screening on plastic has triggered a whole series of new ideas for pictorial signs which offer exciting potential. These techniques include the use of half-tone reproduction of photographs, wood cut and steel engraving effects, and even full four-colour process reproduction silk screened directly on to plastic. These techniques make available to the advertiser a new spectrum of beauty and realism not previously possible in illuminated displays.

In harmony with these new developments, exclusive Canada-wide marketing arrangements have been made with Pearce of England, who are universally recognized for producing the finest stainless steel trimmed display letters available. These letters, together with American Channelume metal letters which are also marketed on an exclusive basis, will be used on our illuminated displays and will also be made available direct to architects throughout Canada for building identification.

Plans were finalized late in 1970 to establish a lamp division in Western Canada to distribute incandescent and fluorescent lamps for domestic and industrial uses. The existence of several hundred established accounts should provide a substantial market for lamps in 1971.

Neon Products is the largest designer and lessor of electrical and plastic signs in Canada, and continues to look forward to maintaining its strong position in this field which has contributed to its success over its 43 years in business. This optimism is warranted in view of the record level of lease and service contracts on hand. Unrecorded future income under these contracts is $13.5 million, up 7% from a year ago.

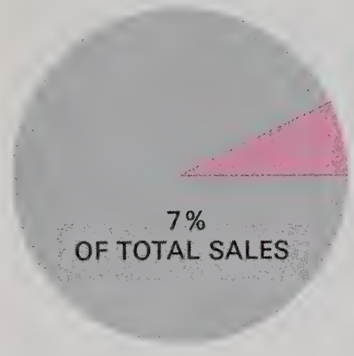

MILLERS
TELEPHONE


HOTEL REMBRANDT
LOBBY ENTRANCE


PARKING


MOTOR
HOTEL
STAMPEDER
neon products ltd.
d.k. sinton

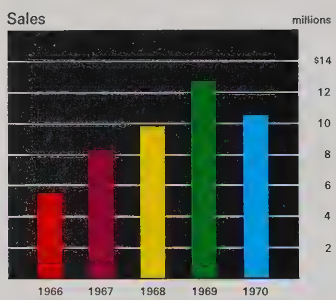

MOTOR
HOTEL

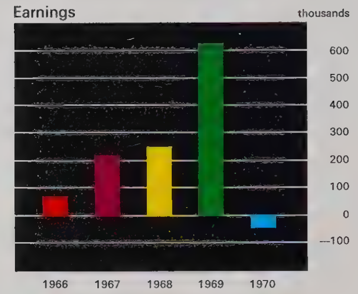


Neonex was the sole sales agent in supplying mobile homes for many communities in Western Canada.

Your Company increased its product line of Mobile Homes in 1970 to meet the demand for more spacious living in this growing residential market.

Shelter





The Neonex Shelter Division, comprising two sister companies, plays a dominant role in the mobile home industry in Canada. Instant Housing Industries manufactures a broad range of mobile homes, most of which are distributed by United Mobile Homes through 34 outlets in Western Canada.

In 1969, Instant Housing commenced an addition to its existing plant and office facility in Calgary, Alberta. This expansion was completed early in 1970, and the 94,000 square foot facility represents one of the most modern plants in Canada. During the year, Instant Housing upgraded its production standards to conform with those established by the Canadian Standards Association in conjunction with the industry association.

Housing starts in Canada were down some 10% from 1969 reflecting the general state of the economy. Unresolved labour contracts in British Columbia for a substantial part of the year accentuated the market drop in this area where company sales are concentrated.

Sales were $10.6 million in 1970, down 17% from the $12.8 million recorded in 1969. This drop in sales resulted in a lower absorption of overhead in a year when such costs had increased because of the plant expansion.

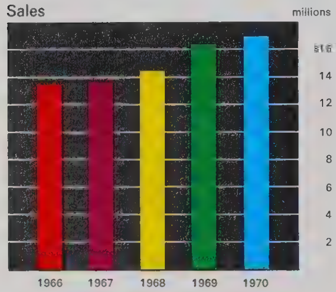
Almost 50% of new units sold by United in 1970 were purchased from sources other than Instant Housing, pending completion of the plant expansion and sale of inventory on hand. In the fall of 1970, it was decided that Instant Housing would manufacture all United's requirements for 1971, and the plant is now producing 28 models compared with 14 in 1970. This will permit a substantial increase in production levels and should result in full overhead absorption and higher profits.

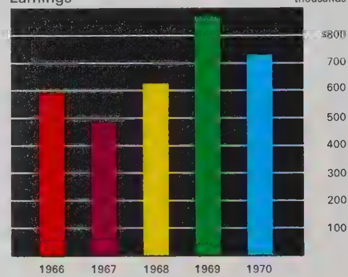
The company's research and development department was successful in the latter part of 1970 in developing small low-cost housing modules at a cost of approximately $10 per square foot. Marketing of this product commenced in 1971 and consumer acceptance has been strong.

United Mobile Homes is at the forefront of development of mobile home communities in its home province of Alberta. We recently entered into a joint venture with Paragon Properties Limited to build and market 283 mobile homes in Calgary's new community, Chateau Estates. Negotiations for similar developments are being pursued throughout Western Canada. Discussions are also proceeding with four other major Canadian manufacturers to form a consortium to develop mobile home communities across Canada.

Helicopter and motor carrier transportation business increased in 1970 as the Transportation Division continued to capitalize on new facilities.

Transportation Services





The motor-carrier subsidiaries were more closely integrated during the year, with the 21 year old Reimer Express name now replacing that of Hunt in the westernmost provinces. This means a stronger and better coordinated transportation system stretching from the St. Lawrence River to the Pacific.

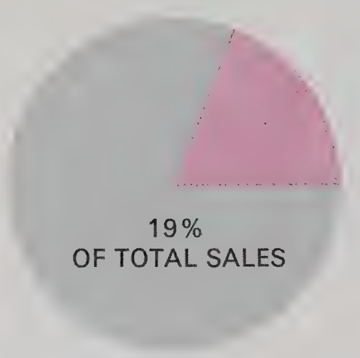
This move produces several benefits for your company. We will be able to project a stronger marketing image, provide better control through centralized accounting, and fully integrate the communications network from Montreal to Vancouver, thereby giving more efficient customer service.

In order to retain our strong position in the motor transportation industry, Neonex has continued its program of investing the necessary capital to maintain a properly balanced fleet to service its many customers.

During 1970 Associated Helicopters Ltd. contracted its services over a wider range of industrial activities and has reduced its dependence on a single industry or geographic area. This approach contributed to improved equipment utilization and increased revenue from the existing fleet. No additions or changes were made to the fleet during 1970, but we have upgraded it early in 1971 by the addition of two new Bell 206A helicopters. Our field location at Inuvik, North West Territories, is now established on a more permanent basis with the addition of storage and maintenance facilities along with office and living quarters. This site has lived up to expectations and is well situated in an area which has received tremendous interest in oil exploration.

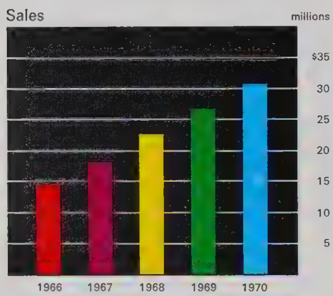
The company performed contract work in several locations among the Arctic Islands, the Yukon, east as far as Hudson's Bay and south to the United States border. Associated Helicopters looks forward to its 21st year of operations.

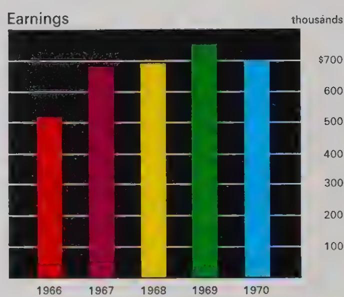
The Transportation Division increased its sales to $17.3 million, up 5% over 1969. Earnings, however, were down some $158,000 reflecting highly competitive factors experienced in the trucking industry during 1970.



Expansion into Eastern Canada helped in setting a record sales year by the Consumer Goods Division. Mail order catalogues are now distributed to 700,000 Canadian households.

Consumer Goods





The Consumer Goods Division recorded sales of almost $31 million, an 11% increase over 1969. Universport, the sporting equipment distributor, had an after-tax loss of over $150,000 after a substantial inventory writedown in respect of certain product lines to be discontinued; this caused divisional earnings to fall some $50,000 from 1969.

The division expanded its highly successful ANC distributor warehouse operations into Eastern Canada where two new outlets were opened in Toronto, Ontario. The program met with excellent response from the Ontario consumer and your company looks forward to continued successful growth in the eastern market.

The first full year of operations of the distributor warehouse in Winnipeg achieved initial forecasts, and we look forward to an increasing volume in this market.

There are now nine distributor warehouses located in major centres from Ontario to British Columbia. Tight controls through experienced regional management and overall direction and administration from the Edmonton head office contributed to a successful year of operations. In 1970 the ANC computerized mailing list was revised to better service the needs of a growing list of registered card holders. Several catalogues are issued each year to card holders who now represent some 700,000 Canadian households.

The carnival operation was able to effect improvements in both marketing and product by more closely integrating the operations in Eastern Canada with the company's established western base.

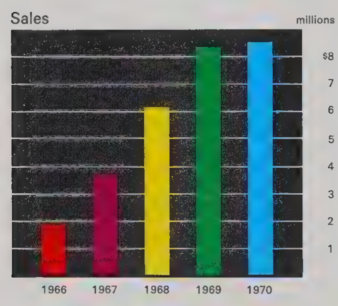
The magazine and music operations had a satisfactory year and continued to improve their operating base. Several new music distribution agreements were made. During 1970, the Company increased substantially its market penetration in Western Canada.

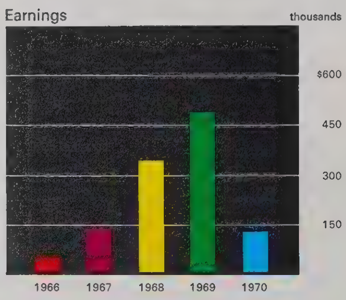
The Consumer Goods Division continues to intensify its program of ensuring a depth of management talent with the recruitment of professionally qualified management trainees, and looks forward optimistically to the future.




The Leisure Time Division has increased its manufacturing facilities and distribution network throughout Canada to meet the demand of this growing market.

Leisure Time





The total leisure and recreational market experienced a strong growth trend over the past several years. This pattern changed during 1970 as a result of anti-inflationary controls causing tight money conditions, a high rate of unemployment, strikes and general labour unrest. This economic uncertainty had a particularly damaging effect on leisure markets as consumers cut back on discretionary spending.

Notwithstanding these factors, the Leisure Time Division, consisting of Travelaire Trailers, Otto Tent Campers and Triple-E Trailers, did maintain the sales level achieved in 1969. Excess production in the industry had a depressing effect on prices and this, combined with higher labour costs, caused profit margins to decline substantially. Divisional earnings fell by $351,000 from 1969 levels.

Late in 1970, the Company began integrating these three subsidiaries into a new company called Neonex Leisure Products Ltd. Operations are now controlled from Vancouver with regional offices at manufacturing locations in Red Deer, Alberta, in Winkler, Manitoba and in Arnprior, Ontario. Plants also continue manufacturing in Woodstock, Ontario and Edmonton, Alberta.

Each of the above manufacturing plants has in the past produced only one line of product, with markets having been somewhat limited because of the high cost of distribution. With the integration of the Leisure Time companies, these factories are now being tooled up to manufacture any or all products bearing the Travelaire, Triple-E and Otto names, together with planned new lines. The first new line to be introduced will be travel trailers ranging from fourteen to twenty-four feet which will be marketed under the name Holidaire.

Neonex Leisure Products has added an industrial design department and greater emphasis will now be placed on styling, convenience and economy.

A national sales group is set up to establish and service dealers from coast to coast for all products manufactured. New products will be marketed through additional dealer organizations, resulting in an increasing coverage of the Canadian market.

Your company looks forward to an increase in market penetration by its Leisure Time Division in 1971. This confidence is based on the new national marketing program, the coordinated use of our manufacturing facilities across the country and the anticipated increase in discretionary spending by consumers as an upturn takes place in the economy. The plant expansion programs undertaken during the past three years place the company in a strong position to capitalize on the anticipated growth in this market.

Neonex International Ltd.
and Subsidiaries

STATEMENT OF EARNINGS

	YEAR ENDED DECEMBER 31	
	1970	1969
	(thousands of dollars)	
Sales and revenue		
Net sales and operating revenue	$159,643	159,301
Other income	713	768
	160,356	160,069
Costs and expenses		
Cost of sales and operating expenses	122,945	121,865
Selling and administrative expenses	29,077	25,627
Depreciation — Note 4	2,170	1,982
Interest on long-term debt and convertible notes	1,281	1,310
Other interest	1,093	625
	156,566	151,409
Earnings before income taxes and extraordinary loss	3,790	8,660
Income taxes — Note 7	1,950	4,100
Net earnings before extraordinary loss	1,840	4,560
Extraordinary loss — Note 14	(8,147)	
Net (loss) earnings — Note 15	$ (6,307)	4,560
Earnings per share — Note 16		
Net earnings before extraordinary loss	27¢	68¢
Net (loss) earnings	(91¢)	68¢

SOURCE AND APPLICATION OF FUNDS

	YEAR ENDED DECEMBER 31	
	1970	1969
	(thousands of dollars)	
Source of funds		
Operations		
Net (loss) earnings	$ (6,307)	4,560
Amounts included in extraordinary loss which did not require funds during the year	5,733	
Depreciation and deferred charges amortized	2,253	2,019
Deferred income tax	(1,183)	518
	496	7,097
Cash collateral deposit realized	3,000	
Interest in 50% owned company and other securities, reclassified as current	1,465	
Sale proceeds of property, plant and equipment, less gain	1,384	2,446
Long-term debt issued	1,760	10,979
Convertible notes issued		16,085
Other	68	(154)
	8,173	36,453
Application of funds		
Property, plant and equipment	5,375	6,502
Investments	123	13,190
Long-term debt reduction	4,328	7,227
Lease contracts and other	1,111	869
Dividends paid	347	330
Goodwill on purchase of businesses		1,300
	11,284	29,418
Working capital		
(Decrease) increase during year	(3,111)	7,035
Opening balance	18,076	11,041
Closing balance	$14,965	18,076

Neonex International Ltd.
and Subsidiaries

BALANCE SHEET

Assets	DECEMBER 31 1970	DECEMBER 31 1969
	(thousands of dollars)	
Current assets		
Cash	$ 1,339	1,322
Short-term investments, at lower of cost or quoted market value	1,586	6,107
Accounts receivable	17,194	16,900
Inventories — Note 2	22,061	25,039
Prepaid expenses	780	618
	42,960	49,986
Investments and other assets		
Lease contracts and other	7,487	6,456
Investments — Note 3	3,436	13,190
Deferred charges and intangibles	3,074	3,486
	13,997	23,132
Property, plant and equipment — Note 4	21,714	19,901
	$78,671	93,019

Liabilities and Shareholders' Equity

	DECEMBER 31	
	1970	1969
	(thousands of dollars)	
Current liabilities		
Banks — Note 5	$10,776	7,170
Accounts payable and accruals	17,219	19,522
Payable on acquisition of shares		5,218
	27,995	31,910
Long-term debt — Note 6	11,626	14,194
Deferred credits — Note 7	2,742	3,953
Convertible notes — Note 8	16,085	16,085
Shareholder's equity		
Common shares — Note 9	4,840	4,840
Retained earnings — Note 11	15,383	22,037
	20,223	26,877
	$78,671	93,019

On behalf of the Board

Director

Director

Neonex International Ltd.
and Subsidiaries

RETAINED EARNINGS

	YEAR ENDED DECEMBER 31	
	1970	1969
	(thousands of dollars)	
Opening balance	$22,037	17,807
Net (loss) earnings for the year	(6,307)	4,560
	15,730	22,367
Cash dividends paid	347	330
Closing balance	$15,383	22,037

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Neonex International Ltd. and subsidiaries as of December 31, 1970 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Chartered Accountants.

Vancouver, British Columbia, April 30, 1971

NOTES TO FINANCIAL STATEMENTS

1. Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries.

Goodwill of $1,212,000 is recorded at cost and classified with deferred charges and intangibles; this amount is not being amortized as there has been no diminution in value. Goodwill of $464,000, principally relating to the floorcovering subsidiary, was written off during the year.

Obligations payable in U.S. currency were converted to Canadian currency at rates which prevailed on dates of issue and their carrying value exceeds the liability at the current rate of exchange by approximately $1,400,000.

The financial statements for the year ended December 31, 1969 have been reclassified where applicable to conform with the presentation used in the current year.

2. Inventories

Inventories are valued at lower of cost or net realizable value and are classified as follows:

	1970	1969
Raw materials	$ 2,615,000	2,509,000
Work in progress	887,000	1,179,000
Merchandise and finished goods	18,559,000	21,351,000
	$22,061,000	25,039,000

3. Investments

Investments comprise the following:

	1970	1969
50% owned companies (not yet operating) shares at cost and advances	$ 165,000	1,092,000
Maple Leaf Mills Limited		
225,600 common shares, at quoted market value (1969 at cost)	3,271,000	6,142,000
Options to purchase common shares		2,011,000
Cash collateral deposit		3,000,000
Other quoted securities		945,000
	$ 3,436,000	13,190,000

Subsequent to the year end, the Company agreed in principle to sell its 50% interest in Bigelow-Canada, Limited and accordingly this investment has been reclassified as a current account receivable.

All costs of Maple Leaf Mills Limited shares in excess of quoted market value, together with option payments, interest and other costs, have been charged against earnings in 1970 (Note 14).

4. Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and consists of the following:

	1970	1969
Land and improvements	$ 4,196,000	4,042,000
Buildings	12,505,000	10,764,000
Machinery and equipment	18,112,000	16,755,000
	34,813,000	31,561,000
Accumulated depreciation	13,099,000	11,660,000
	$21,714,000	19,901,000

Depreciation is provided on the diminishing balance method, except for transport equipment which is depreciated on the staight-line method. The following rates are used to reduce the cost of assets to residual value over their estimated useful lives:

Buildings	5% to 10%
Transport equipment	8% to 12%
Machinery and equipment	10% to 40%

5. Banks

Current bank indebtedness is secured by inventories approximating $2,000,000 and by accounts receivable.

6. Long-term debt

Long-term debt, excluding current maturities, consists of the following:

	1970	1969
Term bank loan — U.S. $7,205,000 (1969 U.S. $10,000,000)	$ 7,731,000	10,731,000
6½% Debentures, due 1980, payable $75,000 annually	1,050,000	1,125,000
Mortgages at rates from 6% to 12%, due at various dates to 1992	2,154,000	1,818,000
Conditional sales agreements and other loans	691,000	520,000
	$11,626,000	14,194,000

Neonex International Ltd.
and Subsidiaries

Subsequent to the year end, the maturity date of the term bank loan was extended to April 3, 1972, with interest fluctuating with future lending rates (current rate is 7¼%). If the principal amount of this loan has not been reduced to U.S. $2,500,000 by April 3, 1973, the Company will be required to issue warrants entitling the lender to purchase shares having an aggregate value of U.S. $547,000 at the market value on such date. Such warrants would be exercisable for a period of three years and would be subject to a buy-back provision. This loan is secured in part by 225,600 common shares of Maple Leaf Mills Limited.

Maturities relating to the above long-term debt for each of the next five years are as follows:

1971	$ 736,000	1974	$440,000
1972	8,200,000	1975	380,000
1973	420,000		

7. Deferred credits

Deferred credits comprise:

	1970	1969
Income taxes	$1,002,000	2,840,000
Rental deposits and other	1,740,000	1,113,000
	$2,742,000	3,953,000

Taxes currently payable are minimized by including, in taxable income, revenues and expenses in amounts permitted under the Income Tax Act which differ from the amounts recorded in the accounts. Provision has been made for taxes of $1,370,000 deferred as a result of these timing differences and includes an amount of $368,000 ($316,000 as of December 31, 1969) classified as current. The current portion of deferred income taxes less net current income taxes recoverable is not material and has been included in accounts payable and accruals.

8. Convertible notes

The 5¾% Convertible Senior Subordinated Notes due 1984 in the principal amount of U.S. $15,000,000 are repayable in annual principal instalments of U.S. $2,500,000 commencing 1979, subject to prior redemption by the Company at a premium of 50%. The Notes are convertible into 1,271,860 common shares which number may be increased in accordance with anti-dilution provisions.

9. Common shares

Authorized 14,000,000 shares of no par value.
Common shares outstanding are as follows:

	Shares	Amount
Balance as of December 31, 1969	6,754,328	$4,840,000
Shares issued as additional consideration for companies pooled in prior years:		
United Trailer Co. Ltd.	90,164	
Travelaire Trailer Mfg. Ltd.	91,756	
Balance as of December 31, 1970	6,936,248	$4,840,000

The Company has reserved 116,000 common shares for stock options (Note 10) and 1,271,860 common shares for conversion of the Convertible Notes, and in addition may be required to issue share warrants in connection with the term bank loan.

10. Stock options

The Company has granted options to certain key employees to purchase common shares of the Company at 90% of the market price at date of grant. Options outstanding entitle the holders to purchase 116,000 shares at an average price of $7.82 per share exercisable in varying amounts to March 1979. There were no changes in outstanding options during the year. Options to purchase 40,000 shares were cancelled subsequent to December 31, 1970 and the options shown as outstanding as of December 31, 1970 have been reduced accordingly.

11. Dividend restrictions

The Convertible Note Agreement restricts payment of dividends to an amount not exceeding $2,000,000 plus consolidated net earnings subsequent to December 31, 1968 as defined in the Note agreement (unrestricted amount is $7,728,000).

Prior to repayment of the term bank loan due April 3, 1972, payment of annual dividends is further restricted to the lesser of U.S. $375,000 or 10% of consolidated net earnings.

12. Commitments and contingent liabilities

Approximate rentals for leased warehouses, retail locations and advertising sites were $1,170,000. Future average annual rentals under these leases are as follows:

1971-1975	$1,050,000
1976-1980	700,000
1981-1985	350,000
1986-1996	150,000

Finance contracts sold with recourse or guaranteed approximate $15,000,000.

A subsidiary is joined with other defendants in an action claiming damages in the amount of $1,000,000. The Company and its subsidiary have obtained a full indemnity to the extent of any judgement that may be realized. The Company's legal counsel have expressed the opinion that the subsidiary's position can be successfully defended.

13. Possible litigation

In 1969 the Company acquired 225,600 common shares of Maple Leaf Mills Limited and entered into purchase and option agreements with Norris Grain Company and Leitch Transport Ltd. to acquire an additional 852,911 common shares. Because of a default by Norris Grain Company, the Company was not able to complete its contractual commitments.

United States counsel have expressed the opinion that the Company has a right of action against Norris Grain Company for damages resulting from the default. While negotiations continue in an effort to avoid litigation, if an action is commenced, the Company would seek to recover all losses incurred in connection with the acquisition of Maple Leaf Mills Limited shares and with the purchase and option agreements. United States counsel have also expressed the opinion that the Company should be awarded damages including any amounts that the Company may be obliged to pay to Leitch Transport Ltd.

14. Extraordinary loss

Extraordinary loss, net of applicable income taxes, comprises the following:

Maple Leaf Mills Limited		
Wrtiedown of cost of shares to quoted market value	$2,871,000	
Cost of options to purchase shares	2,011,000	
Interest and other costs, net of tax of $378,000	1,296,000	
Dividends received	(135,000)	
	6,043,000	
Writedown of cost of other common shares to quoted market value		558,000
Business curtailment costs, net of deferred tax of $655,000 — Note 15		1,082,000
Goodwill written off		464,000
		$8,147,000

15. Floorcovering subsidiary

The Company's floorcovering subsidiary experienced operating difficulties during 1970 arising from the introduction to the Canadian market of a new line of carpets. Because of these difficulties, operations were curtailed and related costs, including estimated loss on disposal of redundant facilities and goodwill written off, were recorded as an extraordinary loss during the year. Sales and net earnings of this subsidiary included in the consolidated statement of earnings are as follows:

	(thousands of dollars)		
	1970	1969	Change
Sales	$18,981	27,391	(8,410)
Net (loss) earnings before extraordinary loss	$ (1,418)	242	(1,660)
Extraordinary loss	(1,409)		(1,409)
Net (loss) earnings	$ (2,827)	242	(3,069)

16. Earnings per share

Earnings per share are based on the weighted average number of shares outstanding, adjusted retroactively for shares issued for poolings of interests. Fully diluted earnings per share are not presented as the effect in the current year of assumed conversion of the Convertible Notes is anti-dilutive and assumed exercise of outstanding options is anti-dilutive or does not have a material effect on earnings per share.

17. Statutory information

The aggregate remuneration paid by the Company and subsidiaries to directors and senior officers of the Company for the year ended December 31, 1970 amounted to $472,000.

Neonex Directors

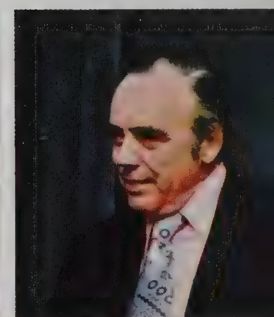
James A. Pattison

M. Donald Easton

C. Stuart Mitton

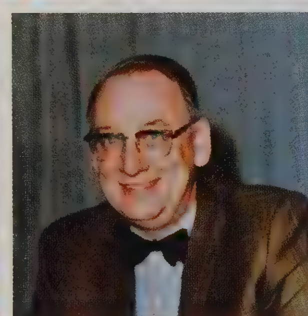
Harry B. Dunbar

Lawrence B. Eberhardt



Lawrence Hoguet

Michael D. Dingman John M. Thompson

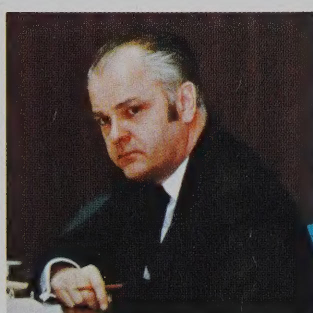


Robert W. Halliday

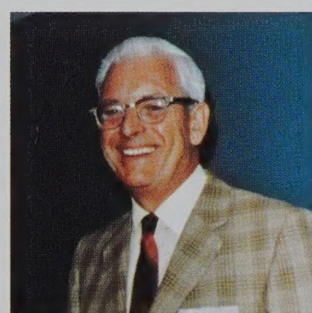
Not shown are new Directors
Russell A. Dunn and Mark N. Kaplan.

Officers and Corporate Executives

Griffith M. Marshall,
Vice-President Finance
and Administration.



Guy J. Lewall,
Vice-President
and Secretary-Treasurer.



Wesley Van Dusen,
Senior Member
of the Corporate
Operations Staff.

Left: Dennis Davis, *Senior Member of the Corporate Financial Staff.*
Right: Wilfred N. Ray, *Director Corporate Communications.*

Stanley F. Whittle,
Group Vice-President.

Left to Right: Barry Smith, Paul Radford and Don Bielby,
Senior Members of the Corporate Financial Staff.

Neonex International, headquartered in Vancouver, moved in 1970 into their new corporate offices on the sixteenth floor of the Guiness Tower.

HISTORICAL SUMMARY *(dollars in thousands except amounts per share)*

	1970	1969	1968	1967	1966
For the year					
Sales	$159,643	159,301	140,736	118,768	98,342
Net earnings before extraordinary items	1,840	4,560	3,928	3,199	2,751
Net (loss) earnings	(6,307)	4,560	3,928	3,375	2,751
Cash flow	496	7,097	5,633	5,291	4,385
Dividends paid by Company	347	325	205	442	442
Return on equity	8%	19%	19%	18%	18%
Capital expenditures	5,375	6,502	3,750	*	*
Per common share					
Net earnings before extraordinary items —					
basic	.27	.68	.59	.48	.43
fully diluted	.27	.61	.57	.47	.41
Net (loss) earnings —					
basic	(.91)	.68	.59	.51	.43
fully diluted	(.91)	.61	.57	.49	.41
Cash flow	.07	1.06	.85	.80	.68
Dividends paid by Company	.05	.05	.05	.20	.20
Equity	2.92	3.98	3.38	2.86	2.48
Year end position					
Total assets	78,671	93,019	63,876	54,493	45,077
Working capital	14,965	18,076	11,041	9,683	8,614
Current ratio	1.5	1.6	1.4	1.5	1.6
Shareholders' equity	20,223	26,877	22,534	18,948	16,005
Number of employees	3,765	3,936	3,131	*	*
Number of Company shareholders	5,750	4,050	2,075	2,432	2,642

**Not available.*

Note: The above amounts have been restated for poolings of interests and stock split.

Board of Directors

Michael D. Dingman,
President, The Equity Corporation,
New York, New York.

Harry B. Dunbar, C.A.
Assistant to the Chairman,
Neonex International Ltd.,
Vancouver, British Columbia.

M. Donald Easton,
Partner,
Harper, Gilmour, Grey & Company
Vancouver, B.C.

Lawrence B. Eberhardt,
Vice-President,
Neonex International Ltd.,
Vancouver, British Columbia.

Robert W. Halliday,
Chairman of the Board,
U.S. Natural Resources, Inc.,
Boise, Idaho.

Lawrence Hoguet,
Senior Vice-President and Treasurer,
Englehard Minerals & Chemicals Corporation,
Newark, New Jersey.

C. Stuart Mitton,
President, Overwaitea Limited,
Burnaby, British Columbia.

James A. Pattison,
Chairman of the Board, President and Chief Executive Officer,
Neonex International Ltd.,
Vancouver, British Columbia.

John M. Thompson,
Chairman of the Board,
Crush International Ltd.,
Toronto, Ontario.

Russell A. Dunn,
President, Eurocan Pulp and Paper Co. Ltd.,
Vancouver, British Columbia.

Mark N. Kaplan
Senior Partner, Burnham and Co.
New York, New York.

Officers

James A. Pattison,
Chairman of the Board, President and Chief Executive Officer.

Stanley F. Whittle,
Group Vice-President.

Griffith M. Marshall,
Vice-President Finance and Administration.

Guy J. Lewall,
Vice-President and Secretary-Treasurer.

Lawrence B. Eberhardt,
Vice-President Corporate Credit.

Transfer Agents and Registrars

The Canada Trust Company,
Vancouver, British Columbia;
Calgary, Alberta; and Toronto, Ontario.

Bankers Trust Company,
New York, New York.

Auditors

Peat, Marwick, Mitchell & Co.,
Chartered Accountants,
900 West Hastings Street,
Vancouver, British Columbia.

Executive Offices

Sixteenth Floor,
1055 West Hastings Street,
Vancouver 1, British Columbia,
Telephone 688-6764, Area Code 604,
Telex 04-507616.

Stock Listings

Toronto and Vancouver Stock Exchanges,
Over the Counter Market, New York.

Produced by W. Ray, Corporate Communications Department

NEONEX INTERNATIONAL LTD.

1055 WEST HASTINGS ST., VANCOUVER 1, BRITISH COLUMBIA, CANADA

PRINTED IN CANADA